Econ 330 – Money and Banking
Problem Set 1

Due: Tuesday, June 13

Question 1

What are the main differences between stocks and bonds? If you think there is a stock market bubble in the IT industry, would you rather buy a stock in an IT firm or a bond issued for 10 years by the same IT firm?

Question 2

The GDP of the Kingdom of Far-Far Away was $10,000$ gold pieces in year 1 and $12,000$ gold pieces in year 2. Because of a war against an evil dragon, prices rose in the Kingdom, so that the inflation rate between years 1 and 2 was 20%. Given that the GDP deflator in year 1 was equal to 1, calculate the GDP deflator for year 2 and the growth rate of real GDP.

Question 3

Consider the following situations and explain whether they are an example of moral hazard or adverse selection:

(i) People with a family history of serious disease are more likely to demand health insurance.

(ii) After buying car insurance, people tend to drive more carelessly.

Question 4

Which functions of money you can identify in the following cases:

(i) You buy a new car.

(ii) You make a time deposit with a bank.

(iii) You walk into a store and you compare the price of two different kinds of chocolate bars.